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SONOS

Second Quarter Fiscal 2026 Conference Call Remarks **May 4, 2026 - 4:30 pm Eastern/1:30 pm Pacific**

James Baglanis, Investor Relations

Good afternoon and welcome to Sonos' Second Quarter Fiscal 2026 earnings conference call. I am James Baglanis, and with me today are Sonos' CEO, Tom Conrad, CFO, Saori Casey and Chief Legal Officer, Eddie Lazarus.

Before I hand it over to Tom, I would like to remind everyone that today's discussion will include forward-looking statements regarding future events and our future financial performance. These statements reflect our views as of today only and should not be considered as representing our views of any subsequent date. These statements are also subject to material risks and uncertainties that could cause actual results to differ materially from expectations reflected in the forward-looking statements. A discussion of these risk factors is fully detailed under the caption "Risk Factors" in our filings with the SEC. During this call, we will also refer to certain Non-GAAP financial measures. For information regarding our Non-GAAP financials and a reconciliation of GAAP to Non-GAAP measures, please refer to today's press release regarding our Second Quarter Fiscal 2026 results posted to the Investor Relations portion of our website, investors.sonos.com.

After the call concludes, we will upload our revised supplemental earnings presentation, including our guidance, as well as the conference call transcript to the IR website.

I will now turn the call over to Tom.

Tom Conrad, Chief Executive Officer

Good afternoon everyone, and thanks for joining us.

At the start of Fiscal 2026, we said we expected to return Sonos to growth this year. Through the first half, that's exactly what we've done.

We delivered \$282 million of revenue in Q2, up about 8% year over year and near the top end of our guidance range. Gross profit dollars grew double digits on a GAAP basis, and Adjusted EBITDA came in above the midpoint of our range. Saori will take you through the details in a moment.

These are strong quarterly results. But what matters more is the broader picture. Across the first half, and now looking into the second, we have changed the trajectory of the business. After a challenging period, Sonos is beginning to grow again, and we're seeing our progress show up across the company. First half revenue was up 2% and Adjusted EBITDA improved meaningfully year over year.

At the center of that progress is a simple idea: the Sonos system is the product. Each device we add and each improvement we make increases the value of the whole system, compounding over time as customers expand across rooms and use cases. That system-level value, and the way it builds over time, is what differentiates us in the category.

On our Q1 call, I outlined five dimensions we're focused on to drive durable growth: product innovation, customer advocacy, more intentional marketing, geo-expansion, and tapping emerging demand trends. Together, these form the engine that drives both new household growth and expansion within our installed base.

We're starting to see the results of that work in the business. The product pipeline is delivering. Growth markets are performing well. And the system is more reliable than it has been in years, which is helping restore customer advocacy. Taken together, this has new customers entering and existing customers expanding into the system.

I want to spend a moment on our newest product, Sonos Play.

It launched just as the quarter closed, so its contribution to Q2 was de minimis. But the early reviews tell us something important about where we are as a company.

Gizmodo called it “a comeback.” The Wall Street Journal described it as the “Goldilocks” speaker. The Verge called it “a great way into the Sonos world.” Bloomberg said we’re “back on track.” Reviewers around the world agree: crisp and beautiful sound, unmatched versatility, beautiful craftsmanship. In short, Sonos doing what Sonos does best.

These glowing reviews were written independently, across a host of markets and geographies, as the launch embargo lifted. This remarkable consistency reflects both the quality of the product and the clarity of the story around it. Over the past year, the product team has rebuilt the foundation, and now Colleen and our marketing teams are sharpening how we show up as a system and you can see that work landing here.

If you step back, Play illustrates three of our five growth dimensions working in concert.

First, product innovation. This is differentiated hardware and software, designed not as a standalone object, but as an entry point into the system and a reason to expand it.

Second, marketing. The consistency of the global press narrative reflects a clearer and more coherent system story.

And third, customer advocacy. When reviewers start using words like “comeback” and “back on track,” that shift in tone is consistent with improving customer sentiment and the progress we’ve been making.

Era 100 SL, which launched alongside Play, nicely complements the work Play is doing for us. With a simplified design and a \$189 price point, it lowers the barrier to entry into the Sonos system. We’ve already seen that pricing changes on Era 100 have driven new customer growth over multiple quarters, and Era 100 SL should build directly on that momentum.

We have more than 53 million connected devices across more than 17 million homes. As we’ve described before, the opportunity within that base is substantial. Moving from roughly 4.5 devices per multi-product household to six represents about \$5 billion in incremental revenue, before even considering new household growth. Converting single-product households adds another \$7 billion.

We continue to see behaviors that underpin our model. Customers are entering through accessible products and expanding across rooms and use cases over time, and now we

have two new ways to enter the Sonos system – and more reasons for existing customers to expand inside and outside their homes.

Turning to our operations, I want to take a moment to introduce a meaningful addition to our leadership team. Frank Barbieri is joining Sonos as Chief Operating Officer.

Frank brings over 25 years of experience building and scaling consumer businesses — most recently leading Walmart’s omnichannel consumer content, media and gaming operations across both stores and e-commerce, one of the largest entertainment portfolios in U.S. retail. I’ve known Frank for nearly 20 years, and his combination of commercial depth, operational discipline and genuine passion for consumer products makes him exactly the right person to join our team.

As COO, Frank will take responsibility for Partnerships, direct consumer relationships across DTC, CRM, and Customer Experience, as well as revenue systems and IT. This a meaningful concentration of operational capability under experienced leadership, and I expect it to show up in how we execute against the growth agenda I’ve been describing.

All in all, we’re carrying real momentum into the second half.

Play has launched to strong early reception. Era 100 SL looks to be the right product for a moment when many potential customers are focused on value. We have Amp Multi coming this fall as a much anticipated product for our professional installer channel. More broadly, our pipeline remains healthy across not just hardware but also software, with a continued focus on deepening the system experience.

In our growth markets, which I noted as a fourth important lever for our business, we’ve now seen multiple consecutive quarters of strong performance. Sonos Play’s warm reception by international press reinforces the vast opportunity in front of us. We continue to see our expansion markets as important contributors to our growth that will pay off more and more for us over time.

On our last earnings call I suggested that we would grow more in the second half of the year than in the first. I’m pleased to say that we performed somewhat better than expected in the first half, and my view that the second half will be stronger yet, remains unchanged.

Amid this optimism, I want to highlight one challenge. Looking to the second half and beyond, we're managing the headwind of higher memory costs, which are putting downward pressure on our gross margin.

As you know, the semiconductor industry is in the middle of a transition from DDR4 to DDR5 and high-bandwidth memory, driven by AI and data center demand. That is tightening supply for the DDR4 chips we use and increasing costs across consumer electronics.

Our Global Operations team has been focused since early 2025 on securing sufficient supply to support our manufacturing demands. This means pursuing supply through multiple channels. We are also leveraging our engineering expertise to optimize memory requirements across current and future designs, all without compromising product performance or customer experience.

With regard to the effect of higher memory prices, we have a variety of levers to mitigate the impact. Our focus is on managing the headwind thoughtfully, without losing sight of the larger opportunity to drive topline growth alongside increased profitability.

On the topic of tariffs, we will be filing for a refund of prior duties paid under IEEPA now that the U.S. Customs and Border Protection has launched phase one of CAPE. While the timing is uncertain, the benefit could be as large as \$40 million which would be another meaningful offset to the higher memory costs.

So, while memory headwinds are real, we're managing it from a position of preparation and expertise.

Let me close with this.

We've moved through a phase of stabilization. What comes next is building durable growth.

We're at an important point, and the signals are showing up across product, markets and customer behavior.

The product pipeline is active again. Growth markets are showing strong performance. The system is stronger, more reliable and easier to understand.

Our progress on the dimensions we discussed today - new products, more effective marketing, geo-expansion and a return to consumer advocacy – is beginning to deliver growth, but the opportunity to grow into emerging adjacencies is what I find most compelling. AI is already transforming how we operate internally, from the way we build software, to how we execute marketing, to how I run the company. But the external opportunity is vast: 17 million households and 53 million connected devices, voice-enabled and present room-by-room. This is an installed base with significant value, and as more people look for experiences that don't depend on pulling out their phone, that value only grows. We're building toward something larger here, and while I'm not ready to lay out the full picture today, there is considerably more to this story and I look forward to sharing it with you in time.

With that, I'll turn it over to Saori

Saori Casey, Chief Financial Officer

Thank you, Tom. Hi everyone.

We closed out the first half of Fiscal 2026 on a high note, with revenue growth of 2% thanks to our strong Q2 results. This return to growth was accompanied by disciplined execution, with 7% and 6% growth in GAAP and Non-GAAP gross profit dollars, respectively. GAAP Operating Expenses decreased by 16% and Non-GAAP Operating Expenses decreased by 10%. The combination of Gross Profit dollar growth and Operating Expense reduction resulted in Adjusted EBITDA growing 48%, representing margin improvement of 510 bps.

Q2 results overall came in strong against our expectations, marking our seventh consecutive quarter of executing against our commitments.

Revenue grew 8% year over year to \$282 million, near the high end of our guidance range driven by APAC and EMEA growing 25% and 21%, respectively, while the Americas grew 2% year over year. Our growth markets delivered double digit growth, further validating our view that this will be a key driver of our growth in the years to come.

Foreign exchange contributed 4 points to our year over year growth. On a constant currency basis, APAC grew 18%, EMEA 9% and Americas grew 1%.

On a product basis, we saw continued strength in demand for Era 100 as well as strong performance of Arc Ultra. As a reminder, both Play and Era 100 SL had negligible contribution to Q2 revenue given the timing of their launch.

GAAP Gross Profit of \$125 million grew 10% year over year, while Non-GAAP Gross Profit of \$130 million grew 6%. The growth was driven by higher revenue and FX favorability, partially offset by higher memory costs.

GAAP Gross Margin was 44.3% and Non-GAAP Gross Margin was 46.0%. Higher memory costs were an approximately 200 basis point headwind to gross margin, whereas tariffs, like last quarter, were offset by our mitigation actions.

Q2 GAAP Operating Expenses of \$156 million decreased 11% year over year primarily due to the significant restructuring cost associated with last year's reduction in force while

Non-GAAP Operating Expenses of \$137 million were mostly flat to the prior year and a bit below the midpoint of our guidance range.

Stock-based compensation was \$14.9 million, down 36% year over year.

Adjusted EBITDA was positive \$2 million, above the midpoint of our guidance range, increasing \$3 million from negative \$1 million last year. This is an important milestone, as this was our first Q2 with positive Adjusted EBITDA in the past four years.

Non-GAAP Earnings Per Share of negative \$0.02 was up from negative \$0.18 last year.

We spent \$40 million on share repurchases in Q2 to buy back 2.5 million shares, reducing our share count by 2.1%, which leaves us with \$65 million remaining on our current share repurchase authorization.

Our balance sheet remains strong as our net cash balance ended the quarter at \$249 million, which includes \$49 million of marketable securities.

Our period-end inventory balance of \$161 million was up 16% year over year driven by new product launches and tariff costs, partially offset by workdown of component inventory. Our inventory consists of \$144 million of finished goods and \$17 million of components.

Q2 free cash flow was negative \$70 million, consistent with typical Q2 seasonality. Capex was \$5 million, down from \$6 million last year.

Guidance

Turning to our guidance, the Q3 outlook we're providing today reflects the trends we have observed quarter-to-date and are our best estimates.

Revenue

We expect Q3 revenue to be in the range of \$355 million to \$375 million, representing growth of 3% to 9% year over year, up 6% at the midpoint. Our guidance represents modest year over year acceleration from Q2 on a constant currency basis, as we expect FX to have a negligible contribution to growth in Q3.

Please also note that there will be no revenue contribution from Amp Multi in Q3 which is slated to launch in the fall.

We see continued momentum into Q4, driving stronger second-half performance and delivering full-year growth, consistent with what we have communicated over the past two quarters.

Gross Margin

We expect Q3 GAAP Gross Margin to be in the range of 42% to 44.5%, with Non-GAAP Gross Margin approximately 150 bps higher than GAAP, both roughly flat year over year at the midpoint. Our guidance implies mid-single digit growth in Gross Profit dollars at the midpoint, in-line with revenue growth.

Please note our gross margin guidance range embeds an approximately 400 basis point year over year headwind from higher memory costs in Q3, roughly 200 basis points more than Q2. We also do not expect to receive any tariff refunds during Q3.

We are not guiding beyond Q3 at this time, but to provide some color, we currently expect memory cost inflation to rise from Q3, which is likely to pressure gross margin in Q4. As a result, we currently expect both GAAP and Non-GAAP Gross Margin for the second half of Fiscal 2026 to be somewhat lower than the second half of Fiscal 2025, which was 43.5% on a GAAP basis and 44.9% on a Non-GAAP basis.

As Tom mentioned, we are actively working on a variety of mitigation actions to navigate this industry headwind. We are focused on managing this challenge thoughtfully, and without losing sight of the larger opportunity to drive topline growth and increased profitability.

While any tariff refund received in the future would likely be a benefit to gross margin, the second half commentary I just outlined does not incorporate any such benefit given uncertainty around timing.

Operating Expenses

We expect Q3 GAAP Operating Expenses to be in the range of \$150 million to \$160 million. We expect Non-GAAP Operating Expenses to be lower than GAAP by approximately \$18 million, implying Non-GAAP Operating Expenses stay roughly flat to Q2 at the midpoint.

Looking beyond Q3, please note that our opex will vary quarter to quarter in part due to timing of our product launches.

Adjusted EBITDA

Bringing it all together, we expect Q3 Adjusted EBITDA to be in the range of \$20 million to \$48 million, representing a margin of 5.6% to 12.7%.

Our performance in the first half proves that we've built momentum. This was our third consecutive semiannual period of revenue growth improvement, and we expect to sustain this momentum into the second half of the year, making Fiscal 2026 the year that Sonos returns to topline growth.

Looking beyond Fiscal 2026, our focus remains on delivering durable top-line growth, while balancing continued profitability improvements and disciplined reinvestment. To that end, through the adoption of AI, we are starting to see significant improvements in our teams' productivity across a variety of functions including software engineering, IT, accounting, customer support and many more. We believe we are just beginning to scratch the surface of harnessing the potential of AI to continue to improve our efficiency and accelerate our business.

After the call, we will update our earnings slides to reflect our Q3 guidance and second half commentary.

With that, I'd like to turn the call over for questions.

Question and Answer Session

Steve Frankel - Rosenblatt

Tom, I know you're reticent to talk about this AI modernization strategy. But maybe just at a high level, give us some thoughts on, is this a plot to try to create a recurring revenue business? Or is this a bounty-driven business like Roku started with? How should we think about the monetization of AI services from third parties?

Tom Conrad, Chief Executive Officer - Sonos

Steve, thanks for joining the call. Just to frame this out at the highest level, as I said on the call, there are 2 different pieces of how AI is intersecting the business, of course. It's just profoundly transforming how we operate inside the company, how we build software, how we market, and how I personally run the business. But Sonos is really, I think, uniquely positioned with respect to how we can integrate AI technology into consumer-wise. A lot of other companies are asking, how do we move AI off of phones and computers and bring these experiences into people's lives in new and seamless ways.

At Sonos, we already have that path, 17 million households, 53 million connected devices that are voice-enabled and present as you navigate through your life, room by room. That's really a head start that nobody else can buy. And as much as I would like to get into the specifics of the product road map and the business models that will underpin our expansion into those adjacencies, I think it's premature to get into those details today.

Steve Frankel - Rosenblatt

I can't blame myself for trying. So, on the memory issue, I clearly understand the rising cost pressure. Where are you in ensuring that you have adequate supply given the new product ramp in the back half of the year? Are you comfortable that you have enough product at your disposal?

Tom Conrad, Chief Executive Officer - Sonos

Yes. We're feeling really good about supply. Our global operations team started doing the hard work of securing sufficient supply through multiple suppliers, going back as early as the beginning of 2025. And so, as you see us guiding to 6% growth at the midpoint for Q3, we're obviously confident that we're going to have sufficient supply to meet the growing demand for Sonos products. So all these macro headwinds that get thrown at you are always an interesting challenge. I really do feel like we're operating from a place of both preparation and strength.

Steve Frankel - Rosenblatt

And then lastly, congratulations on the 100 SL. Do you see this as an attempt to get an even lower price point to grow the installed base?

Or does a device without a voice agent is that something that either appeals to a different class of customers, or make sense in a multiunit house where you don't need every response you have to have a voice agent inside of it? And what's the theory there?

Tom Conrad, Chief Executive Officer - Sonos

Yes. I mean, Era 100 SL is a really exciting product, I think, because it is so well matched to the moment when consumers are really shopping for value, while at the same time, Sonos is looking to accelerate the acquisition of new households. And so having a product that at its MSRP can sell for only \$189, I think, is just a really great addition to the line. I think the thing to understand about what we've done with Era 100 SL is that this is a no-compromises cost-optimized product from top to bottom. So not just removing the microphones and the speech capabilities, we've done all kinds of interesting work to bring our cost down on this product.

Just to give you an example, most of our products are painted, and Era 100 SL, we've been able to use color injection molding, so we don't have the extra expense of paint with no noticeable change to the product's fit and finish. And so just the global operations team at Sonos continues to do an incredible job of finding ways to deliver the same premium experience we have at lower and lower price points.

And you certainly touched on all of the dimensions that are at play when you think about a product without microphones. So, of course, there are consumers who prefer not to have microphones as part of the offering.

Of course, there are customers who are highly price sensitive who prefer to save money. And there are rooms and use cases from surround satellites to secondary rooms in the home where you might not want to have a microphone. So really exciting product for us. It's the quiet sibling to Sonos Play, which has received such glowing reviews from the press, but we're really excited about what it will do in terms of our strategy to bring Sonos to more and more households.

Erik Woodring - Morgan Stanley

This is Rauf Ural on behalf of Erik. I was wondering if you could just walk us through, maybe some of the scenarios or the moving parts that get you to the high end and the low end of your 3Q gross margin guidance range? And then I'll just have one follow-up after that.

Saori Casey, CFO - Sonos

Thank you for your question. Yes, we can walk through the Q3 guidance. So we guided to 42% to 44. And the range comprised of certainly the memory cost headwind, being sequential, let me just start sequentially. Sequentially, we have memory headwind that we talked about, an additional 200 basis points, and on top of the 200 basis points that we experienced in Q2.

And then offsetting that is that we do grow our revenue sequentially. So we have leverage that is going in our favor. And then on a sequential basis, we'll have now tariff at the new lower rate at 10%. So tariff will also be a tailwind for us, helping offset some of the memory mitigation. And then there are other moving parts, as you say, of a mix of our products. And when we sell our products at what promotion during the course of the quarter, and those are some moving parts that will get us to a different part of the range in our guidance range that we just gave out.

On a year-over-year basis, we talked about memory being a 400 basis point headwind versus last year. And then we have the tariff that we were experiencing, but with the mitigation actions that we have taken, we will end up being net slightly positive, given the reduction in the tariff rate. And then the ongoing cost-saving efforts that we're making, as well as the leverage that will be a partial offset to this 400 basis points of memory headwind that we're experiencing.

Erik Woodring - Morgan Stanley

And just my second question here would be, I know you target consumers interested in your premium experiences among other categories. So I was just wondering if you could share with us whether you're seeing any changes in demand, particularly just considering the ongoing geopolitical conflicts we're seeing today that might have impacts on how consumers are thinking about where they're putting their dollars.

Tom Conrad, Chief Executive Officer - Sonos

I would just say that we're really excited about the demand picture for Sonos in the market. It's certainly what's driving our growth as we go into the second half. We're also really proud of the way that we've expanded the portfolio to take advantage of the value-conscious customer with launches like 100 SL and even Sonos Play, which has such a flexible set of use cases that it can solve for, you just get a tremendous amount of value in that single product. So obviously, we continue to keep an eye on the macro, but I'm feeling good about where demand is for Sonos.

Brent Thill - Jefferies

Tom, just on the second half gets a stronger thesis, maybe if you can underscore what you're most excited about? What are the stepping stones for that continued improvement?

Tom Conrad, Chief Executive Officer - Sonos

Well, we're certainly excited to have Sonos Play and Era 100 SL in the market. And I think we're really starting to see the growth dimensions that I've been talking about on the call starting to stack together. So, product innovation through our new product offerings, more intentional marketing, telling the system story of Sonos, thanks to the great work that our new CMO, Colleen DeCoursey, is doing. We're many quarters into strong performance for our geo expansion investments.

And then finally, we are, I think, starting to see the tailwind of a return of customer advocacy after a period of repair and stabilization. And I think the best way to see that externally is the way the press is talking about our new generation of products, really talking about it being a comeback moment for Sonos.

Brent Thill - Jefferies

And I know you've made some changes in the marketing group. I'm curious, maybe it's too early to see so far from our side, but what steps in terms of improving awareness building are you starting to take? Or are you hearing that's starting to resonate even stronger now?

Tom Conrad, Chief Executive Officer - Sonos

Yes. So Colleen has been with us for about 6 months now, and she's putting together a marketing organization that is really aligned with our system strategy and building the muscle of being able to tell a full funnel brand story from base awareness through consideration and purchase. And it's just really exciting to see her both build that team and the early work that's coming from that momentum.